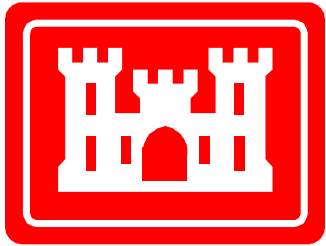


Resident-Area Engineers & Contracting CONFERENCE

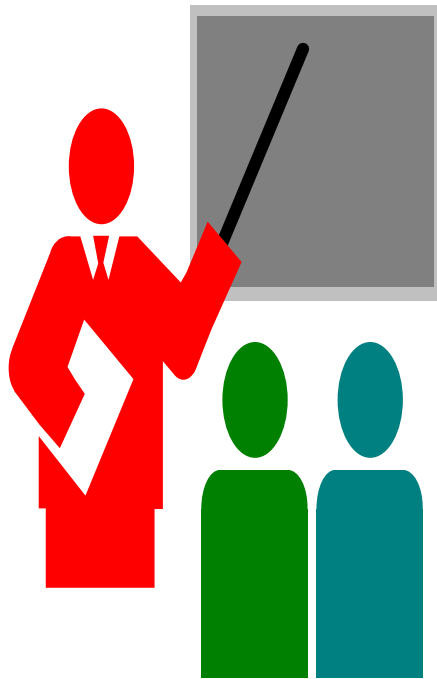


HQUSACE
CEMP-CM

Costs of Doing Business

Jim Lovo
Military Programs
Construction Management
HQUSACE

Costs of Doing Business Outline



- Why are they important?
- What are our costs?
- How do we communicate them?
- What drives them?
- How can we contain and reduce them?

Why are Costs Important ?????

or

How Important are Costs ?????

-
- USACE : We're Primarily Business-type Operation
 - Business = Customers, Products & Cash
 - Customers = Choices
 - Choices = #1: You/Us
#2: Not You/Not Us
 - Customer Satisfaction = Quality, Cost, Timeliness, & Relationships
 - Priority of Cost in Customer Satisfaction ?????
 - *Lovos Law*: No Satisfaction = No Customers = No Cash =



NO BUSINESS!

What are our costs?

Funding the Corps

We're Primarily Project Funded

- **Direct Costs**

- ✓ Labor (mostly)
- ✓ Contracts (mostly)
- ✓ Travel
- ✓ Reproduction

- **Indirect Costs**

- ✓ Leave
- ✓ Employee Entitlements
- ✓ Overhead



What are our costs?

Employee Leave & Entitlements

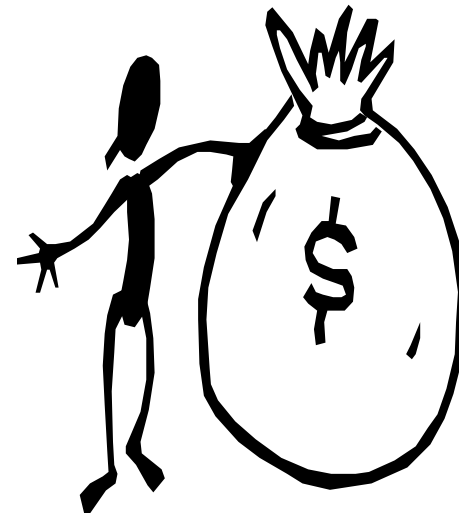
- Burden or Effective Labor Rate
- Rate for cost of employee leave & entitlements (e.g., retirement, health, life insurance)
- Current typical burden rate is 45%



What are our costs?

General/Administrative Overhead (G&A)

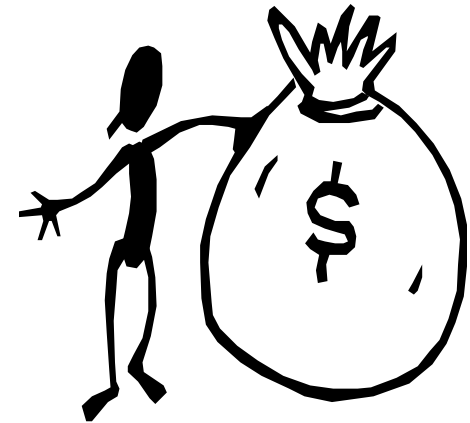
- **Costs associated with:**
 - Executive Office
 - Legal
 - Resource Management Office
 - Logistics
 - Information Management (part)
 - Human Resources Office
 - Safety
 - Public Affairs
 - Portions of Contracting (e.g. small purchases)
- **Expenses include:** Labor, rent, utilities, training, supplies & materials, vehicles, ADP system charges etc.
- **Costs are distributed as** percent of direct labor charges to individual projects.
- **FY 97 USACE Targets: 26-36%**



What are our costs?

Technical Indirect or Departmental Overhead (DOH)

- **Costs of technical organizations not attributed to specific project, includes:**
 - Admin/management labor, etc.
 - GSA rent (civil projects only)
 - Communication services
 - ADP, training, etc.
 - Tech labor not charged under 1 hour rule
- **Technical Offices include: PPMD; Engineering; Construction; Planning; Operations and Real Estate.**
- **Costs distributed as percent of direct labor charges to individual projects.**



What are our costs?

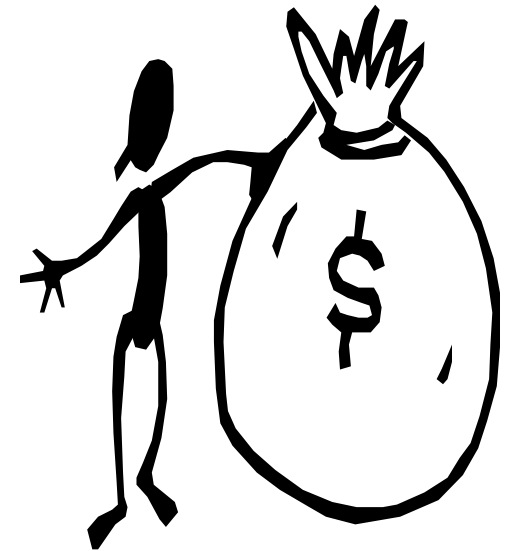
Effective Hourly Rate (Military Projects)

Hourly Rate (Typical)

GS12/02:	\$22.01
Burden	48%
DOH Rate	43%
G&A Rate	27%

$$\begin{aligned} & [\$22.01 \times 1.48] = \$32.57 \\ = & [\$32.57 \times 43\%] + [\$32.57 \times 27\%] \\ = & \$32.57 + \$14.01 + \$8.79 \end{aligned}$$

Military Hourly Rate for GS-12/02 = \$55.37



(Check with RM for Your Effective Rate)

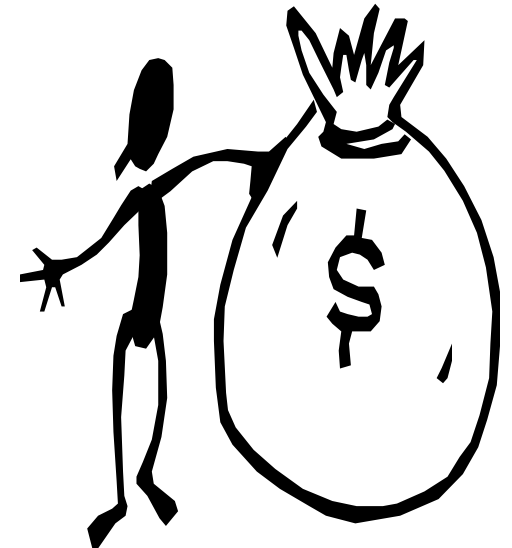
What are our costs?

Total Labor Multiplier (Military Example)

Typical District

Base Salary Labor Unit	1.00
Effective Rate	.48
Departmental OH (<u>1.48</u> x .43)	.64
G&A OH (<u>1.48</u> x .27)	<u>.40</u>
Total Labor Multiplier	2.52

HQ Goal for District Composite: 2.54

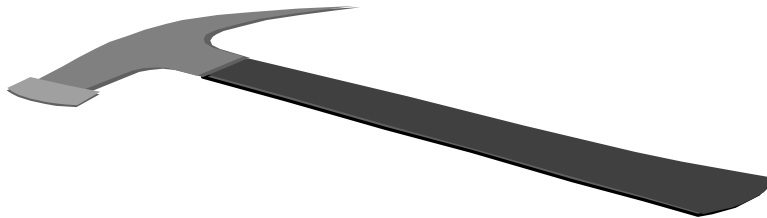


(Check with RM for Your TLM)

What are our costs?

Supervision and Administration (S & A)

- **Costs associated with day-to-day management of Construction.**
- **Construction S&A costs include: Supervision and Inspection of work in progress; Contract Administration; Review of submittals; Quality Assurance; Review/approval of schedules; Contractor payment estimates; Administrative support.**
- **Typically 94% consumed in field offices and construction divisions @ Districts**
- **6% Consumed in PPMD, Engineering, and AE activities.**



What are our costs?

Supervision and Administration (S & A)

- Construction Flat Rate for Military Work
- Actual Cost for Civil Works
- Flat Rate costs accumulated in Revolving Fund Account.
- Distributed to projects as contractor earnings are paid.

- Construction S&A Flat Rates for FY 97:

C
O
N
U
S

- 5.7% MILCON
- 6.5% O&M
- 8% DERP/BRAC ER

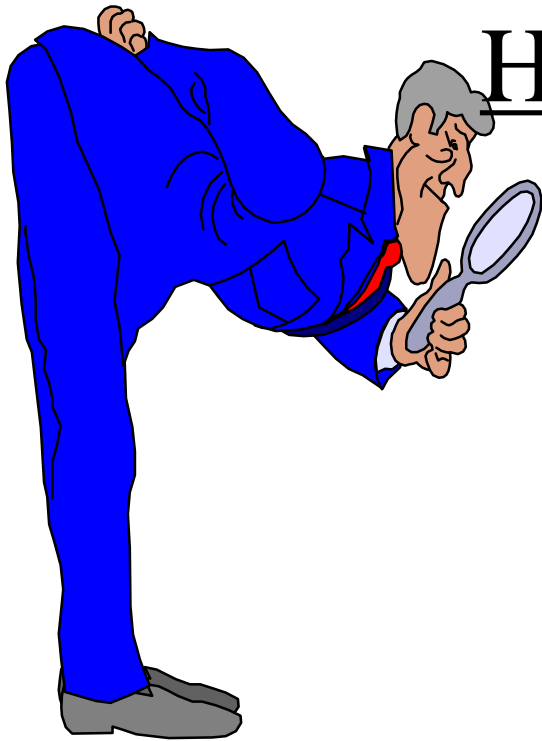
O - 6.5%
C
O
N
U
S

- 7.0%
- 8.5%



- Const S&A Flat Rate = Charges to Customer
- Actual USACE S&A Cost = Const. Flat Rate

How we communicate costs:



S&A Brochure

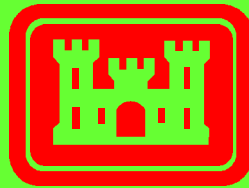
Construction
Division

What is Construction S&A?.....

**How is Construction S&A
charged?.....**

Is it a good value?.....

**.....and other things we
want you to know!**



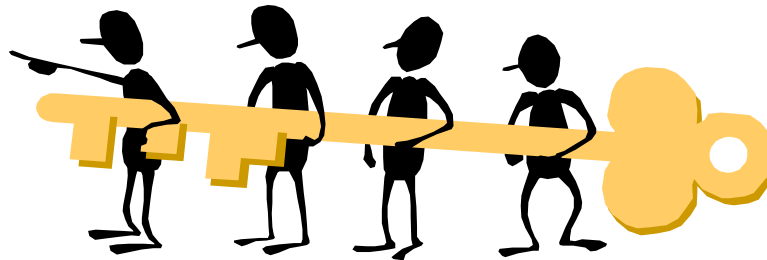
**US Army Corps
of Engineers**

***.Your Construction
Quality Partner***

How we communicate costs!:

S&A Brochure

- This brochure is written for you...
- ...how these services are charged, and what those charges are.
- ...team members at every level have a good understanding of our construction supervision and administration services and fees ...

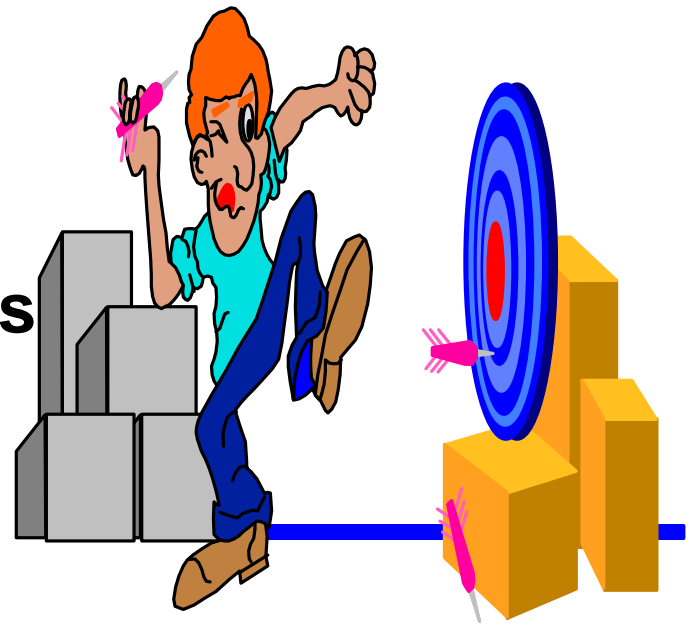


- ...so that we can work together more effectively.

What are our costs?

Engineering During Construction (EDC) Issues

- **Who's in charge?**
 - Const, PM, Engr???
- **How is EDC controlled?**
 - District actual EDC ranges from 0.5% to 2%
- **What are the rules?**
 - Same activities charged to different accounts among districts (especially between EDC and S&A accounts)



What are our costs?

Engineering During Construction (EDC)

- ER 37-345-10: This cost account /work category includes but is not limited to normal engineering support activities performed by the engineering division or an architect engineer firm as follows: Designer site visits, review of shop drawings and submittal...etc,etc, etc, etc...????

**0.5% or 2%??? &
who charges what???**



What drives our costs?



- **Productivity**

- Doing the right thing
- Doing the right thing, right
- Doing the right thing, right, at the right time

- **Direct & Overhead Activities**

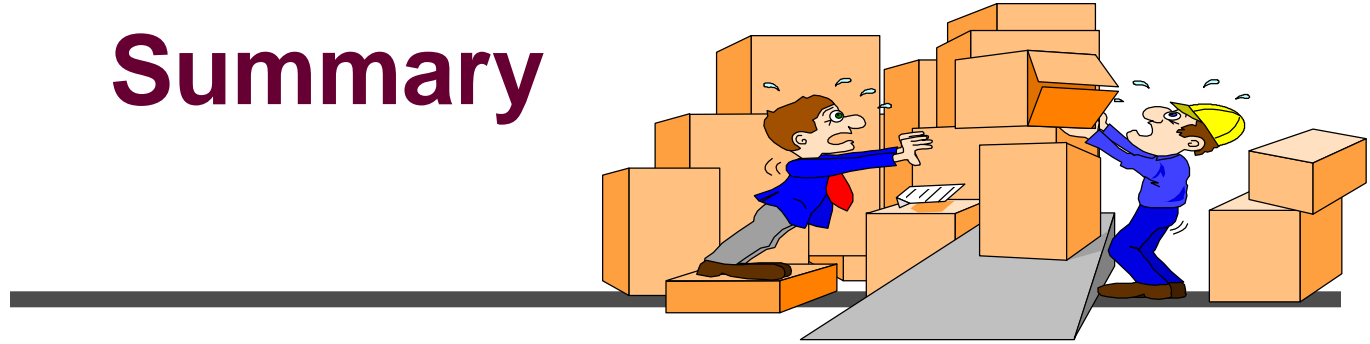
- Direct: labor & contracts
- Overheads: burden is mostly fixed; G&A and DOH can (and must!) be managed

How can we contain & reduce costs?

- **Focus on quality management and providing value.**
- **Focus on:**
 - ✿ **USACE Management Costs**
 - ✿ **Direct Project Costs**
 - ✿ **Direct Costs**
 - ✿ **Overhead Costs**
 - ✿ **Appearance of Waste**
 - ✿ **Explaining Costs**
- **Achievements:**
 - **FY96 MILCON S&A - 5% (6.0% to 5.7%)**
 - **FY97 O&M S&A (O'Conus) - 6% (8.5% to 8.0%)**
 - **FY97 O&M S&A (Conus) - 13% (7.0% to 6.5%)**
- **Customers care about cost!**



Summary



- Costs are critical!
- Know and understand them.
- Communicate them accurately to customers.
- Control & reduce them while improving quality.